

**OFFICE OF THE GOVERNOR**  
**BUDGET AND PROGRAM PLANNING**  
STATE OF MONTANA

BRIAN SCHWEITZER  
GOVERNOR



PO Box 200802  
HELENA, MONTANA 59620-0802

TO: Clayton Schenck, Legislative Fiscal Analyst  
Legislative Fiscal Division

FROM: David Ewer, Budget Director  
Office of Budget and Program Planning

DATE: January 7, 2005

SUBJECT: Amendments to the Governor Schweitzer's 2007 Biennium Executive Budget

In accordance with 17-7-112, MCA, I am submitting the following formal written amendments to the January 7 preliminary 2007 biennium Executive Budget that we submitted to you in late December:

### **Film Industry Tax Credits**

The amount budgeted for film industry tax credits have been increased to \$950,000 for FY 2006 and \$2 million for FY 2007. This is an increase from the December budget of \$700,000 for calendar year 2005 (FY 2006 impact) and \$1.5 million for calendar year 2006 (FY 2007 impact). These tax credits are refundable, but non-transferable. There is a 15% credit for the first \$50,000 of wages paid to each Montana resident working on the production and a 10% credit for qualified expenditures which include such items as hotel, rental vehicles, fuel, meals, scene construction materials, etc. There is a \$1 million tax credit cap for each production. The tax credits are sunset for tax years ending after December 31, 2008.

### **Business Equipment Property Tax Exemption Expansion and "Trigger" Elimination**

Under current law, a business equipment owner does not need to file reports or pay the business equipment property tax if the market value of the business equipment owned is less than \$5,000. Starting January 1, 2006, this property tax exemption for business equipment is raised to \$20,000. Approximately 13,400 small businesses will benefit from this expanded tax exemption. This will reduce property tax revenues about \$900,000 in FY 2006 and \$2.5 million in FY 2007. Cities, counties, and consolidated governments will be reimbursed for the revenue loss through their entitlement share payments, which are statutory appropriations. The education revenue reduction will be funded through school block grants in the HB 2 appropriation process.

Statute 15-5-138, MCA, provides for a class 8 rate reduction, referred to as a 'trigger'. If in any year, inflation-adjusted Montana wage and salary income increases at least 2.85%, then the tax rate for class 8 property is reduced by 1% each year until it reaches zero. This budget proposal includes the elimination of the business equipment (class 8) 'trigger'. Elimination of the 'trigger' will preserve the current revenue base that is needed for local governments and schools. Should the

**OFFICE OF THE GOVERNOR**  
**BUDGET AND PROGRAM PLANNING**  
STATE OF MONTANA

BRIAN SCHWEITZER  
GOVERNOR

'trigger' be hit and need to be  
the growth in local government and



PO Box 200802  
HELENA, MONTANA 59620-0802  
implemented January 1, 2007, assuming

school mill levies grow as shown in Table 1, the revenue impacts are \$8.7 million in FY 2007, \$34.2 million in FY 2008, \$64.6 million in FY 2009, and \$89.1 million in FY 2010.

Table 1 shows the revenue impact should the 'trigger' be implemented January 1, 2007 for the state general fund, the university 6-mill account, local governments, local schools, and the tax increment districts (TIFs). As part of the budget recommendation to expand the business equipment filing threshold, it is recommended that the 'trigger' be eliminated.

Table 1						
Fiscal Year - Class 8 Estimated Reduction in Revenue With and Without the Trigger						
Fiscal Year	Estimated Reduction in Property Tax Revenue by Taxing Jurisdiction					
	State Government <sup>1</sup>	University 6-Mill <sup>2</sup>	Local Government	Local Schools	TIF	Total
2004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005	-	-	-	-	-	-
2006	-	-	-	-	-	-
2007	(1,462,047)	(98,026)	(3,659,756)	(2,936,772)	(553,483)	(8,710,083)
2008	(5,402,978)	(361,673)	(14,606,557)	(11,721,035)	(2,125,099)	(34,217,342)
2009	(9,583,721)	(640,530)	(27,981,601)	(22,453,843)	(3,919,802)	(64,579,496)
2010	(12,414,334)	(828,452)	(39,145,839)	(31,412,589)	(5,284,445)	(89,085,659)

<sup>1</sup>State Government mill levy includes the (average) 1.5 vo-tech mill levy located in five counties

<sup>2</sup>The University 6-Mill is collected on all property, including incremental taxable value as shown in Table 4.

## Department of Natural Resources & Conservation/Judiciary –

NP 2409 – Water Adjudication Funding - OTO - Governor Schweitzer recommends \$1 million general fund each year of the biennium to be used in an effort to speed up the water rights adjudication process. These funds, used in combination with other funds generated by the legislature for this issue, will allow the Department of Natural Resources and Conservation and the Water Court to complete the process which is currently behind schedule. The funding is one-time-only and is intended to be deposited in the water adjudication account to augment funding provided by HB 22. Of the \$2 million, \$400,000 will be used by DNRC to complete the development of the water rights database, and the remainder to be used for the water adjudication process.

## Department of Health and Human Services –

NP 3203 - Big Brothers Big Sisters OTO - This new proposal requests general fund of \$90,000 per year for the Big Brothers Big Sisters programs of Montana. Big Brothers Big Sisters is a statewide organization that matches children with an adult volunteer big brother or big sister. Big Brothers Big Sisters provides services to about 350 children each month.

## Governor's Efficiency Council

NP 555 – Governor's Efficiency Council OTO – This new proposal adds \$400,000 one-time-only general fund money for the 2007 biennium to the Governor's Office for the operations of the Governor's Efficiency Council. The council will be made up of nine members: Lieutenant Governor,

Chair; Legislative Auditor, as an ex officio member, non-voting; and seven member of the general public. The public members will be appointed as follows: two members appointed by the Speaker of the House, two members appointed by the President of the Senate, and three members appointed by the Governor. The council's staff will be provided by the Governor's Office and the Office of Budget and Program Planning. The council will work to identify efficiencies in state government and will provide interim reports to the Legislative Audit Committee with a final report to the 60<sup>th</sup> Legislature.

## **Pay Plan**

Governor Schweitzer recommends an increase in the Governor Martz 3 percent per year pay plan recommendation. The recommended increase in funding for the pay plan is \$1.5 million in FY 2006 and \$4.5 million in FY 2007. Negotiations are continuing with the unions on the pay plan, when a resolution is met the details of the plan will be available.

## **Fund the Defined Contribution Plan Loan**

The executive requests \$1.4 million over the biennium in general fund to reimburse the Public Employees Retirement Systems (PERS) Defined Contribution Retirement Plan (DCRP) for start-up costs incurred by the DCRP. The DCRP was established in 2003, and funding to establish the plan was provided by a loan to be repaid by the DCRP. However, the requirement of plan members to repay the loan is creating an undue hardship on the members. In addition, the plan sponsor - in this case the State of Montana - is ultimately responsible for costs related to the establishment of a new retirement plan.

Minor adjustments in the fund balance due to CAFR adjustments and other prior year adjustments were also updated in the budget. Please see the attached spreadsheet for the updated numbers.

Please let me know if you have questions or would like any additional information from us.